HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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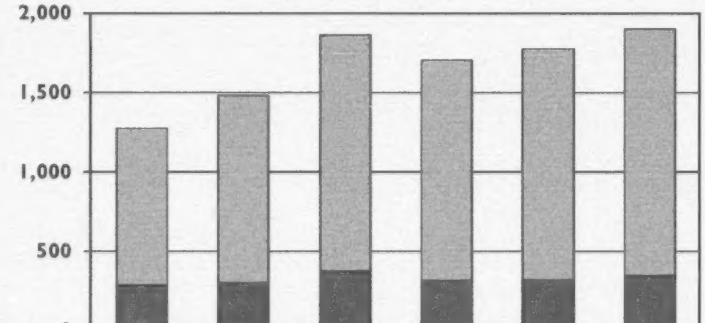
Continued Growth in St. John's Housing Market

In recent years, the St. John's area housing market has been driven by a timely blend of resilient consumer spending, large capital project activity and improved employment, which have resulted in positive net-migration and population growth. These favourable trends have, and will continue to support demand for housing throughout the remainder of 2010 and in 2011. Accordingly, continued growth in the local housing market is expected. In spite of recent increases, mortgage rates remain near historic lows and will be supportive of housing demand. Personal income growth aided by wage gains and tax cuts will provide some support to housing starts this year and next. Overall, the outlook is positive for the St. John's area housing market and will be reinforced by a positive economic outlook supported by major capital projects.

Figure 1

Healthy New Home Demand

Housing Starts- St. John's Region



	2006	2007	2008	2009	2010(f)	2011(f)
Singles	985	1,174	1,485	1,385	1,450	1,550
Multiples	290	306	378	318	325	350

Source: CMHC

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Economic Trends

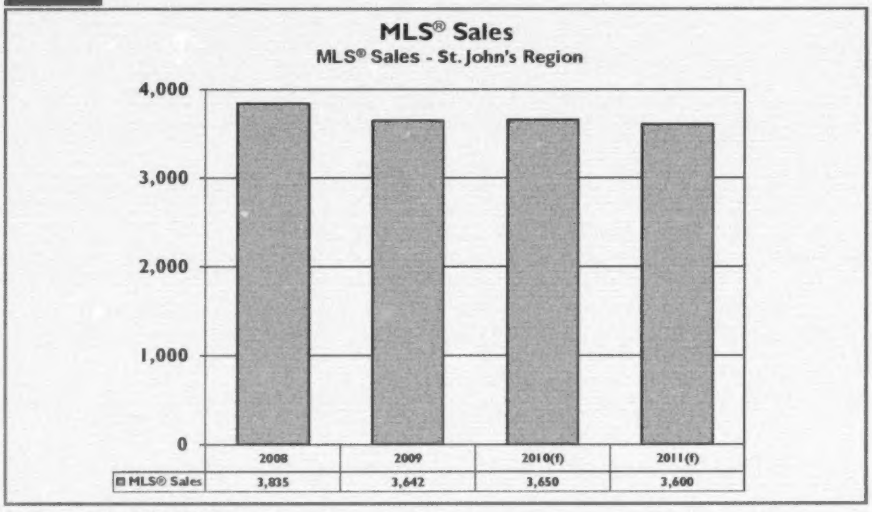
Local Economy

Several planned and realized major capital projects continue to inject stimulus into the local economy and contribute to increased resiliency on the part of consumers. Consumers - a key component of economic growth in 2009 through related spending on retail, auto and housing activity - have continued to spend thus far in 2010. However, natural declines in offshore oil production will continue to restrain GDP growth this year and next. During 2009, oil production declined 22 per cent compared to 2008 levels. Having peaked in 2007 and 2008, oil production is expected to remain below the 100 million barrel level this year due to natural declines at the major producing oil fields. Weaker offshore oil production will reduce growth in the 2010 to 2011 period, although increased royalties received by the province will continue to contribute to economic growth. Weak commodity prices in 2009 resulted in decreased and/or suspended mineral exploration and mining extraction activity in the interior region of Newfoundland, as well as Labrador last year. However, global resource prices have rebounded, which will add to economic growth in both 2010 and 2011. Coming off the heels of negative real GDP in 2009, expect 2.5 per cent GDP growth for Newfoundland-Labrador in 2010 and three per cent growth in 2011.

Mortgage Rates

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

Figure 2



Source: CREA, CMHC Forecast
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Note: Eastern Region (St. John's) MLS® data unavailable prior to 2008 calendar year

With the Overnight Rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Resale Market

MLS® Sales will Remain Healthy

With record sales levels posted during the past several years, the St. John's area resale market is expected to remain healthy in terms of total unit sales. Accordingly, the forecast calls for MLS® sales of 3,650 units this year, with 3,600 sales expected in 2011. With many newly built homes selling through the MLS® system, brisk residential construction activity will continue to have a positive impact on total MLS® sales. The surge of 16.7 per cent in average prices in 2009 was certainly a result of the increase in new construction. Housing market activity was robust in 2009 but remained in a balanced state during most of the year. With demand expected to be healthy over the forecast period, unit sales will remain historically strong, but will not exceed recent record levels. While becoming increasingly favourable to buyers, resale market conditions have

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proved challenging for some sellers as they have begun to receive offers significantly below list price. With increased inventory now available to choose from many buyers have fared well in their search for an existing home and in some cases have been lured away from the higher-priced new homes market. The large new versus existing home price premium has resulted in increased first-time buyer activity within the lower-priced resale market – a trend that is expected to continue in spite of the anticipation of prices rising marginally this year.

Resale Market Balanced

Historically, the St. John's area resale market tends to be balanced, with buyers and sellers equally aligned. However, stimulus from capital project announcements and positive net-migration of approximately 2,400 people to the St. John's region, quickly positioned the market to favour sellers in 2008. The onset of global economic uncertainty in the fall of 2008 caused the strong local sellers' market to weaken from its third quarter peak. As a result, the market rapidly moved through balanced and into buyers' conditions by the end of the year and fluctuated in and out of buyers' and balanced conditions throughout 2009.

In terms of unit sales, the market has been strong this past winter and into the spring season with activity up approximately 25 per cent so far this year. A higher number of listings has resulted in fewer multiple offers and sales prices coming in at approximately 98% of asking price. Inventory has increased 5.6 per cent and listings stayed on the market longer – 61 days on average. Prices, however, have continued to rise. The sales-to-active listings ratio has fluctuated in and out of buyers' and balanced conditions, but has been mostly balanced. The combined impact of these variables will result in the local resale market remaining in balanced market conditions for the remainder of this year and in 2011.

Price Growth will Moderate

With the local resale market returning to balanced conditions, the expectation is for price growth to continue but at a more moderate pace this year and next. After two years of very strong growth, the average MLS® house price is forecast to be $245,000 in 2010, an increase of nearly 12 per cent over last year's average of $218,862. The average price will see further growth of approximately four per cent in 2011 as prices reach $255,000. Once again, active move-up buyers will cause the two-storey home category to lead price growth locally over the forecast period. However, the recent price growth in two-storey homes will continue to reduce the demand from first-time buyers for this style of home. Bungalows, semi-detached and row house units will remain viable homeownership alternatives for this group of buyers.

New Home Market

Solid New Home Demand

Growth in single-detached housing starts is expected to return in 2010 and 2011 after a modest decline in 2009. Employment and income growth, combined with population growth driven by steady in-migration, will provide support to local residential construction activity. Demand will be driven by positive economic and demographic trends, capital project activity, as well as continued population growth within the St. John's region. The relative strength in the local resale or existing home market will also contribute to demand for new home construction over the forecast period. However, recent strength in price growth, combined with an increase in land, labour and material costs, will restrain the level of price activity in the new home market. As a result, single-digit price growth is projected for this year and next, with new home prices expected to peak in the first half of 2010. Accordingly, total housing starts are forecast to increase four per cent this year to 1,775 units within the St. John's region, with construction activity increasing an additional seven per cent in 2011 to 1,900 units.

Flat Multiple Starts Activity

The multiple unit segment of the market is expected to see 325 units break ground this year and increase to 350 units in 2011. With rising construction costs and longer build times, the number of single-detached homes with basement apartments continues to slow as buyers opt for less expensive single unit homes. The mid-priced local condo market has developed slower than expected, but smaller households and a rapidly aging population continue to stimulate demand for these units in St. John's. The expectation for some downsizing households is to sell their home and buy a condo without a mortgage. Recent condo price growth, however, has made this goal more difficult for some to attain. Despite considerable price growth, income growth will continue to drive first-time buyer demand for new semi-detached and row housing.

Rental Market

Vacancy Rate will Remain Low

Several factors will keep the vacancy rate low in 2010 and 2011. With the recent growth in house prices, the movement of renters to homeownership will continue to remain low. Also, increased economic activity will continue to have a positive impact on the in-migration of workers to the St. John's area from areas of the province. Memorial University and local colleges will continue to draw students, who traditionally are renters, into the region as well.

Some additional investment in new multi-unit apartment development is expected and will begin to increase the supply of apartments this year and next. However, before a significant increase in large-scale developments can occur in the local market, average rents will need to rise in order to offset the costs of development and construction. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is forecast to remain low at one per cent in 2010 and rise marginally to 1.3 per cent in 2011. With the vacancy rate remaining very low, expect demand to push average two-bedroom monthly rents to $725 by the end of this year and to $775 in 2011.

Forecast Summary St. John's CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	NA	3,835	3,642	3,650	0.2	3,600	-1.4
MLS® New Listings	NA	7,520	7,427	7,500	1.0	7,450	-0.7
MLS® Average Price ($)	NA	187,571	218,862	245,000	11.9	255,000	4.1
New Home Market							
Starts:							
Single-Detached	1,174	1,485	1,385	1,450	4.7	1,550	6.9
Multiples	306	378	318	325	2.2	350	7.7
Starts - Total	1,480	1,863	1,703	1,775	4.2	1,900	7.0
Average Price ($):							
Single-Detached	211,123	230,473	281,803	315,250	11.9	328,250	4.1
Median Price ($):							
Single-Detached	189,900	215,372	260,000	291,000	11.9	303,000	4.1
New Housing Price Index (% chg.)	5.0	19.6	11.5	8.0	n/a	5.0	n/a
Rental Market							
October Vacancy Rate (%)	2.6	0.8	0.9	1.0	0.1	1.3	0.3
Two-bedroom Average Rent (October) ($)	614	630	677	725	6.0	775	11.0
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.20	5.56	1.34
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.57	7.06	0.86
Annual Employment Level	94,400	98,000	99,200	100,000	0.8	102,000	2.0
Employment Growth (%)	1.4	3.8	1.3	0.8	n/a	2.0	n/a
Unemployment rate (%)	6.9	7.8	8.1	8.0	n/a	7.5	n/a
Net Migration [1]	1,386	2,408	2,750	3,000	9.1	2,850	-5.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2009 migration data is forecasted

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